

INFORMATION ON PROPOSED RULES AND STATUTE AMENDMENTS

The PACT Board continues to seek workable solutions to maintain the viability of the PACT program. Any sound solution will necessarily involve a spirit of partnership among PACT, Alabama's education institutions, the Legislature and the PACT contract holders. Preliminary discussions with the education institutions and the Legislature have been encouraging.

The PACT Fund holds approximately \$329 million in invested capital received from PACT purchasers. These assets are currently valued at approximately \$512 million. However, the current assets will be unable to keep up with the expected growth in tuition over the life of the PACT Program. The Board therefore plans to request legislative funding of \$15 million per year, beginning in 2013. The proposed funding would be delayed until 2013 to allow the economy and state budgets time to recover.

The Board has reviewed actuarial reports prepared by Dan Sherman of Buck Consultants. Mr. Sherman also prepared the recent RSA actuarial study following last year's legislative session. These reports provide the validation and framework for the proposed rules and statute changes.

In summary, the key recommendations are as follows:

- Proposed Rule changes will not be implemented until approved by the Court;
- Seek \$15 million in annual funding from the Legislature to begin FY 2013 and continuing through 2028;
- Redefine PACT tuition payment to be a base per hour rate at the current average of the Alabama four-year institutions (up to \$199 per semester hour). In future years, the previous year's tuition rate will be increased based on positive investment returns. Any difference in the amount of tuition paid by PACT and the amount of tuition charged by the higher education institution may potentially be supplemented with scholarships, financial aid and other tools available to make college affordable. We will be actively seeking the assistance of the colleges and universities in this area.

The proposed definition of Tuition, if approved by the Court, is:

Beginning Fall 2010, the average per hour rate of basic undergraduate resident tuition, based on a 15-hour semester, charged by the Four-Year Universities for the 2009 Fall Term. If the Eligible Educational Institution charges less per hour of tuition than the amount referenced in the proceeding sentence, Tuition shall mean that lesser amount.

Beginning Fall 2011, Tuition shall mean the amount referenced above increased by 50% of the annualized total fund rate of return, if any, of the invested assets of the PACT Trust Fund, as of September 30, 2010.

Each year after 2011, Tuition shall mean the previous year's calculation of Tuition increased by 50% of the annualized total fund rate of return, if any, of the invested assets of the PACT Trust Fund, as of September 30 of the previous year. The Board is not obligated to pay any amount of Tuition which the Board determines to be actuarially unsound based on calculations and projections performed by the Board actuary.

The following charts are for illustrative purposes only and do not represent actual results.

Chart A. The following chart shows Fall 2009 tuition charges per each Alabama four-year university, as certified to PACT, as well as the amount PACT would pay beginning Fall Term 2010 under the proposed tuition definition. The maximum amount PACT would pay beginning Fall Term 2010 is the average per semester hour of all the Alabama four-year universities, or up to \$199 per semester hour. If the college or university charges less than the calculated PACT payment, PACT would pay the full amount. Payment to the Alabama community colleges, out-of-state and private institutions would be treated in the same manner.

University	Fall 2009 Tuition/ Per 15 Hr Semester	Fall 2009 Tuition/ Per Hour	PACT Payment/ Per Hour Fall 2010	Difference In PACT Payment And School
Alabama A&M	\$ 2,612	\$ 174	\$ 174	\$ 0
West Alabama	\$ 2,645	\$ 176	\$ 176	\$ 0
South Alabama	\$ 2,670	\$ 178	\$ 178	\$ 0
Alabama State	\$ 2,730	\$ 182	\$ 182	\$ 0
Troy	\$ 2,795	\$ 186	\$ 186	\$ 0
North Alabama	\$ 2,820	\$ 188	\$ 188	\$ 0
UAB	\$ 2,869	\$ 191	\$ 191	\$ 0
AUM	\$ 2,975	\$ 198	\$ 198	\$ 0
Jacksonville State	\$ 3,120	\$ 208	\$ 199	\$ (9)
UAH	\$ 3,255	\$ 217	\$ 199	\$ (18)
Montevallo	\$ 3,330	\$ 222	\$ 199	\$ (23)
Auburn	\$ 3,486	\$ 232	\$ 199	\$ (33)
Alabama	\$ 3,500	\$ 233	\$ 199	\$ (34)
Average		\$ 199		

Chart B. The following chart illustrates how the PACT tuition payment would be calculated for a three year period. PACT annual total rate of returns and tuition increases are hypothetical, and tuition rates per hour are rounded.

School Term	PACT Return (assumed)	PACT Payment/ Per Hour	Tuition Alabama A&M Per Hour	Difference PACT and A&M/ Per Hour	Tuition Alabama Per Hour	Difference PACT and Alabama/ Per Hour	Tuition Increase Per School (assumed)
Fall 2010/ Spring 2011	Not Applicable	\$ 199	\$ 174	\$ 0	\$ 233	\$ (34)	
Fall 2011/ Spring 2012	5% as of Sept 2010	\$ 204 (increased by 2.5%)	\$ 183	\$ 0	\$ 245	\$ (41)	5%
Fall 2012/ Spring 2013	-2% as of Sept 2011	\$ 204 (no Increase)	\$ 188	\$ 0	\$ 252	\$ (48)	3%